

Helping Mongolia's Small-Business People

Extensive mineral deposits significantly contribute to industrial production in Mongolia. However, economic tradition in this former Soviet country creates an economy heavily reliant on herding and agriculture. Soviet assistance ceased with the dissolution of the Soviet Union in the early 1990's, throwing Mongolia into an economic whirlwind. Political inaction and natural disasters first plummeted the country into a deep economic recession only to be thrown into economic reforms. Embracing free-market economics and extensive privatization, Mongolia's economy entered into a period of growth and opportunity.

In 1998, XacBank entered the Mongolian microfinance scene. Now a leading microfinance lender, XacBank empowers entrepreneurial poor to be a part of the promising economic climate.

Today XacBank has a portfolio of US\$14.7 million and serves more than 26,000 micro- and small-enterprise borrowers through an extensive network of 34 urban and rural branches. It is one of only three banks in Mongolia with nationwide coverage.

In late 2004, MicroVest funded a US\$1.5 million convertible loan to XacBank, LLC, a leading microfinance institution (MFI) in Mongolia. As part of the negotiated loan transaction, MicroVest has the opportunity to convert the investment into equity within the next two years.



With a XacBank loan, Ms. Y. Enkhtuya was able to expand her stationary shop in Nalayh district.

The loan represents MicroVest's first investment in Asia. MicroVest is the first foreign investment fund to support XacBank. In addition to helping to fuel the nation's economy, MicroVest's investment is helping to widen the social impact the loans are having on Mongolia's microentrepreneurs.

Among those entrepreneurs is Ms. Y. Enkhtuya, a stationary shop owner in Nalayh district.

"I opened the stationary shop in 2002 with \$300 and it was one of the first stationary providers around," recalls Enkhtuya. "Demand for such products was strong, and I saw good potential to expand my business. However, due to lack of working capital I was unable to expand my business. It was not going well until XacBank opened its branch nearby and I had my first access to credit.

"My first loan was Tugrog 600,000 (USD 546) followed by two cycles of Growth Loans, which I used to expand my business by opening a photo shop and buying my own space for business in the town."

Another XacBank client is Mr. Ts. Khurelbaatar, a former police officer for the Bayanzurkh District Police Department.

“The low salary I received wasn’t enough to meet my family’s basic needs,” says Khurelbaatar. “I decided to move out of the capital city to the nearest town to start my own farm.” So, with his wife and two sons, he started a small farming business in Baganuur District.



Mr. Ts. Khurelbaatar has used loans from XacBank to buy piglets and young goats to expand his farm.

“Lack of working capital was a serious obstacle to expanding my farm, especially after we purchased a vehicle, which was vital for transporting the harvest to the town for sale,” Mr. Ts. Khurelbaatar explains.

A meeting with XacBank loan officers assured him that even small farmers could qualify for credit services. Shortly thereafter he applied for and received his first loan.

“After three cycles, my farm has expanded enough to allow me to buy piglets and young goats in addition to growing vegetables, which I sell in town from my own shop,” he noted.

“XacBank offers microloans with very business-friendly features and conditions that enable me to succeed.”